New Zealand Corporate Boards in Transition: Composition, Activity and Incentives Between 1995 and 2010*

Glenn Boyle†

Department of Economics and Finance
University of Canterbury

Xu (Jane) Ji

Department of Economics and Finance
University of Canterbury

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†Corresponding author: Private Bag 4800, Christchurch 8140, New Zealand. Phone: 64-3-364-3479; Fax 64-3-364-2635. Email: glenn.boyle@canterbury.ac.nz

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Abstract

We document changes in New Zealand corporate board characteristics between 1995 and 2010, a period centred around the 2003 governance-focused reforms of NZX listing rules and recommendations. Unsurprisingly, the representation of non-executive, independent and female directors on NZ boards rose during the period, as did real chair and director fees and the importance of board committees, while average board size fell. Perhaps more surprisingly, much of this movement occurred before 2003. Moreover, there are some intriguing differences between New Zealand and other, mainly larger, countries. We use this information to identify a number of unanswered questions about New Zealand corporate boards.

JEL classification: G34, G38

Keywords: corporate governance, board of directors; board structure

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1 Introduction

Over the last 25 years, the role of corporate governance has been extensively discussed and examined by researchers, journalists, corporate officers, regulators and politicians. As a result of this focus, many countries — including Australia, Canada, France, Germany, Hong Kong, Japan, New Zealand, Singapore, Sweden, the United Kingdom (UK) and the United States (US) — have adopted guidelines or codes that are intended to encourage or require firms to adopt so-called 'best-practice' models of corporate governance.[1]

Underpinning this legislative activity is a voluminous amount of academic research: Adams *et al.* (2010), Becht *et al.* (2003), Clarke (2007), Gillan (2006) and Leblanc and Gillies (2005) provide excellent summaries of the various strands of the international literature. In New Zealand (NZ), governance research has focused almost exclusively on a subset of what Gillan calls 'internal governance': the role and activities of the board of directors. For example, many authors attempt to determine the importance of a limited number of board characteristics (usually board size and the prevalence of outside directors) for NZ firm performance, e.g., Chin *et al.* (2004), Elayan *et al.* (2003), Hossain *et al.* (2001), Prevost *et al.* (2002), Reddy *et al.* (2008), and Reddy *et al.* (2010). Others examine the relationship between board characteristics and (i) executive compensation (e.g., Andjelkovic *et al.*, 2002; Hurst and Vos, 2009; Jiang *et al.*, 2009) or (ii) firm derivatives usage (Marsden and Prevost, 2005) or (iii) financial reporting quality (Bradbury et al, 2006; Rainsbury *et al.*, 2009).[2] A much smaller body of work investigates the determinants of the board characteristics themselves. For example, Mak and Roush (2000) use 1980s IPO data to investigate systematic variation in board size, outside director representation, and CEO duality, while Cahan and Wilkinson (1999), Prevost et al. (2003) and Hossain et al. (2000) focus on issues associated with outside director representation. Similarly, Bradbury (1990), Goodwin (2003), Rainsbury (2004) and Rainsbury et al. (2008) document various aspects of audit committee makeup.

[1] The New Zealand Corporate Governance Best Practice Code, together with several governance-related amendments to listing rules, was developed and released by the stock exchange (NZX) in 2003. Both the Code and the revised listing rules became fully effective in 2004. Although the listing rules are mandatory for all firms listing on NZX – unless an exemption is obtained – the Best Practice Code is aspirational. Similar principles were adopted (in 2004) by the New Zealand Securities Commission as a set of guidelines for all NZ companies.

[2] In addition, Cahan *et al.* (2005) investigate the relationship between board structure and CEO pay in state-owned enterprises.

In all of these studies, information on NZ boards is essentially treated as a means to an end – either as a set of exogenous variables potentially explaining outcomes of interest such as firm performance or executive compensation, or as endogenous variables whose within-NZ variation is to be explained – rather than being of intrinsic interest.[3] Moreover, these studies are necessarily limited in scope: information is provided about only a very small number of board characteristics, different authors use different definitions or measurements of these variables, and the sample periods tend to be concentrated in the 1980s and 1990s. As a result, we have only a very rough idea of the overall state and evolution of NZ boards – what one might call the 'stylised facts' of NZ internal governance.

In this paper, we seek to fill this gap by documenting the composition, activity and incentives of NZ boards during the 16-year period encompassing 1995 to 2010. We examine the extent to which these features have changed over time, how both their levels and trends compare with other countries, and their relationship with firm size. Such a task is potentially important as virtually all existing research on board structure focuses on firms from large economies, particularly the US and UK. By contrast, relatively little is known about the internal governance of firms in small, open economies; although Institutional Shareholder Services provide a comprehensive comparison of governance attributes, their coverage is limited to globally-large firms which obviously tend to be in short supply in small countries.[4] In addition, because the 1995-2010 time period is conveniently centred around the 2003 NZX corporate governance reforms, we are able to provide some preliminary assessments of the impact of these initiatives. Perhaps most importantly, we identify a number of unanswered questions and puzzles that may well serve as a useful agenda for future NZ-based governance research. We do not, however, seek to answer any of these questions, as each of them would be a separate project in itself. Our approach is, therefore, almost exclusively descriptive.

In the next section, we describe our data and the 22 board characteristics that are the focus of this paper. Section 3 begins by comparing the situation in 2010 with that of 1995: this allows us to see which board features have changed and which have not, and to make some simple comparisons with other countries. We also illustrate and discuss trends in selected variables over the entire sample period. In section 4, we (i) investigate whether these trends differ according to firm size, (ii) compare the board characteristics of single-listed NZX firms with those that also list on the Australian exchange, and (iii) determine whether board characteristics have become more or less dispersed during our sample pe-

[3] An exception is Fox (1996) who describes the 1980-1993 evolution of NZ boards. However, his sample period mainly pre-dates the resurgence of interest in governance matters and, moreover, he considers only a very small number (four) of board characteristics – largely reflecting the data that were readily available at that time.

[4] For example, the cross-country study of Aggarwal *et al.* (2007) based on Institutional Shareholder Services includes only 18 NZ firms.

riod. Finally, in section 5, we summarise the possible research questions uncovered by our analysis and offer some concluding remarks.

2 Variables and Data

2.1 Variables

A full list (and accompanying description) of the variables analysed in this paper appears in Table 1. In the rest of this section, we provide a brief discussion of the theory underlying, and evidence associated with, each of these variables.

2.1.1 Board composition

Board with a greater number of directors can potentially call on a wider range of expertise. However, large boards also have disadvantages: individual director responsibility is weakened (a 'safety-in-numbers' effect), and greater difficulties in co-ordinating effective discussion can lead to a dilution of decision-making power with consequent domination by the CEO. Unsurprisingly, therefore, evidence on the importance of board size is mixed. Yermack (1996), Guest (2009) and Mak and Kusndadi (2005) report a negative relationship between board size and firm performance for US, UK and Asian firms respectively. However, for US firms, Coles *et al.* (2007) find that the link depends on firm type – the relationship is negative for single-product firms, but positive for more complex firms (which presumably have greater need of wider expertise). In NZ, Chin *et al.* (2004) and Reddy *et al.* (2010) report no relationship between firm size and board performance; Andjelkovic *et al.* (2002) and Hurst and Vos (2007) similarly find no link between board size and CEO remuneration.

By being less beholden to the CEO, non-executive and independent directors can potentially enhance oversight and monitoring of firm activities (Fama and Jensen, 1983). On the other hand, such directors are often less familiar with the industry in which their firm operates. Consistent with these contrasting views, some authors (e.g., Byrd and Hickman, 1992; Dann *et al.*, 2003; Ryan and Wiggins, 2004) find that greater board independence has a positive effect on various aspects of firm performance, while others (e.g., Agrawal and Knoeber, 1996; Barnhart and Rosentein, 1998; Bhagat and Black, 2002) find the reverse, at least for some firm types. In NZ, NZX Listing Rule 3.3.1 requires that a minimum proportion of board directors be independent.[5] Consistent with this view, NZ

[5] An independent director is one who is not an executive of the firm and who has no disqualifying relationship. In practice, the latter requirement is generally interpreted to mean that an independent director owns less than 5% of the firm's shares and receives less than 10% of his annual income from the firm. This is the definition we use for identifying independent directors in years before the NZX listing rules required firms to list independent directors in their annual reports.

Table 1: Definition of Variables

Description and definition of the variables analysed in this study.

Variable Name	Variable Description
A. Board Composition	
Board Size	Total number of directors on the board
Non-Executive Directors	Proportion of non-executive directors on the board
Independent Directors	Proportion of independent directors on the board
Independent Majority	Percentage of firms with a majority of independent directors
Female Director Incidence	Percentage of firms with at least one female director
Female Director Representation	Proportion of female directors on the board
Long-Serving Directors	Proportion of firm directors with more than 5 years service
B. Director Remuneration and Ownership	
Chair Fees	Fees (in 2010 dollars) paid to non-executive board chair
Director Fees	Fees (in 2010 dollars, per director) paid to non-chair, non-executive directors
Director Ownership	Proportion of equity shares beneficially owned by directors
C. Director Activity	
Board Meetings	Total number of board meetings held during the year
Total Meetings	Total number of board and committee meetings held during the year
Total Directorships	Average number of other directorships held by directors
Listed Directorships	Average number of other NZX-listed directorships held by directors
D. Board Committees	
Audit Committee	Percentage of firms with a separate audit committee
Remuneration Committee	Percentage of firms with a separate remuneration committee
Audit Committee Independence	Proportion of independent directors on audit committee
Remuneration Committee Independence	Proportion of independent directors on remuneration committee
E. CEO Board and Committee Involvement	
CEO-Chair	Percentage of firms where the board chair is also the CEO
CEO on Board	Percentage of firms where the CEO sits on the board
CEO on Audit Committee	Percentage of firms where the CEO is a member of the Audit Committee
CEO on Remuneration Committee	Percentage of firms where the CEO is a member of a separate Remuneration Committee
CEO on Effective Remuneration Committee	Percentage of firms where the CEO is either a member of a separate Remuneration Committee or a member of the Board if no Committee exists

studies generally report a positive relationship between the percentage of outside and/or independent directors and Tobin's Q, e.g., Hossain *et al.* (2001), Reddy *et al.* (2008) and Reddy *et al.* (2010).

Greater female representation on boards not only increases the size of the human capital pool from which directors can be drawn, but also provides some additional skills and perspectives that may not be possible with all-male boards. In recent years, both Norway and France have imposed quotas for female representation. Providing some support for such actions, Adams and Ferreira (2009) find that more gender-diverse boards are tougher monitors. However, they also note that this attribute only seems to be valuable in firms with weak shareholder rights, and that the overall relationship between firm performance and female representation on boards is negative. Although there appears to be no NZ evidence on the effectiveness of female directors, there is a regular stream of media comment suggesting that NZ firms are laggards when it comes to appointing female directors.[6] We measure female board representation in two ways: the percentage of firms with at least one female director, and the proportion of female directors on each board.

Finally on board composition, long-serving directors bring experience and commitment to the boardroom table, but also greater 'familiarity' with management that can weaken oversight and monitoring. Vafeas (2003) reports results consistent with the latter view, suggesting that lengthy board tenure is often associated with directors who befriend management at the expense of shareholders. NZX Listing Rules 3.3.9 and 3.3.11 specify a 5-year maximum term of appointment for executive directors and a 1/3 minimum of directors to retire each year (although reappointment is allowed in both cases). We define a long-serving director as one with more than five years continuous service on the board.

2.1.2 Director Remuneration and Ownership

Although typically only a tiny proportion of firm income, there is some evidence that directors' fees are positively linked to CEO remuneration ('cronyism') and that this has an adverse impact on firm performance, e.g., Brick *et al.* (2006). An alternative mechanism for incentivising and compensating directors is via director share ownership that directly aligns directors' interests with those of shareholders, although too great an ownership share can put directors in conflict with small shareholders. Bhagat and Bolton (2010) and Bhagat *et al.* (1999) both find a positive impact of director share ownership on US firm performance as do, albeit somewhat less strongly, Farrer and Ramsay (1998) for Australian firms.

NZ has no specific restrictions on director remuneration or share ownership, although the NZX Best Practice Code recommends that directors take a portion of their remuneration in the form of non-vested shares. We include only beneficially-owned shares

[6] See, for example, Radio NZ (2011).

in our measure of director ownership.

2.1.3 Director Activity

The most visible way in which directors fulfill their responsibilities is via attendance at board and committee meetings. On the one hand, a greater number of meetings may indicate more diligent boards; on the other it may simply reflect the substitution of form-filling activities for true diligence. Interestingly, Vafeas (1999) reports that the annual number of board meetings is negatively related to firm value, but also notes that this result is driven by an increase in board activity following share price falls. Once this latter effect is controlled for, Brick and Chidambaran (2010) find that firms holding more board and committee meetings tend to have greater value.

Many directors hold directorships at more than one firm. While the holding of multiple directorships can provide valuable experience and indicate high director quality, it also raises the potential for workload problems that diminish overall effectiveness. Neither Ferris *et al.* (2003) nor Sarkar and Sarkar (2009) find any evidence of shirking by 'busy' directors, but Fich and Shivdasani (2006) conclude that firms with a majority of busy outside directors are weaker performers on average. We employ two measures of board busyness: the number of other company directorships held by board members, and the number of listed directorships.

2.1.4 Board Committees

The formation of board committees allows specialist oversight of sensitive areas. Authors such as Anderson and Bizjak (2003), Bradbury *et al.* (2006), Brick and Chidambaran (2010), Klein (2002) and Zhang *et al.* (2007) examine the importance of the audit and/or remuneration committees for various firm activities. NZX Listing Rules 3.6.1 and 3.6.2 require NZ firms listed on the main board to have an audit committee containing a majority of independent directors. The Best Practice Code contains similar recommendations regarding remuneration committees. We investigate the extent of both audit and remuneration committee existence and independence in NZ firms.

2.1.5 CEO Involvement

The final characteristic we analyse is the involvement of CEOs in board and committee activities. CEO participation in board discussions and decision-making can facilitate effective communication and motivate CEOs (e.g., Brickley *et al.*, 1997; Muth and Donaldson, 1998), but may also be associated with significant agency problems (e.g., Bebchuck and Fried, 2004; Fama and Jensen, 1983). Apparently persuaded by the latter view, the NZX Best Practice Code recommends that the CEO should not fill the role of board chair, nor sit on the audit committee. We document the extent of CEO involvement in the boards,

and audit and remuneration committees, of NZ firms.

2.2 Data

The principal source of our data is the NZX Company Research annual reports collection. We begin by identifying all NZX-listed firms for which an annual report is available in 1995 and then eliminate those firms which are not NZ-registered, or whose primary listing exchange is in another country, or whose annual report contains no useful data. For example, there are a total of 99 firm-reports available for 1995, but 13 of these are from overseas firms and two others contain no useful data, leaving a total of 84 firms available for analysis. For each of these firms, we collect all available data for the variables listed in Table 1. We then repeat this exercise for each of 2000, 2007 and 2010. We use 1995 as our starting year as this is the first year in which the increased disclosure requirements of the 1993 Companies Act began to take effect. Prior to that time, NZ company annual reports often contained little information about board activities, so beginning our sample period before 1995 would result in very small sample sizes for some variables.[7]

Where a firm is included in the sample but information on director identity, outside directorships, and tenure is not recorded in its annual reports, we turn to the NZ Companies Office website.[8] This contains a searchable archive of historical information on directors and shareholders for all NZ-registered firms, thereby allowing us to fill some of the gaps in the annual reports. However, because director information is available only on an item-by-item basis – with many directors having a history of more than 100 directorships, each of which must be investigated individually to determine whether it is a qualifying observation – obtaining useful information from this source is a somewhat laborious process.[9]

Finally, to ensure comparability across time, we express all monetary values in 2010 NZ dollars. For this purpose, we adjust non-2010 values by the appropriate percentage increase in the NZ consumer price index, obtained from the Reserve Bank of NZ website.[10]

Table 2 provides some summary information about our sample, which contains 84 firms for 1995, 100 for 2000, 134 for 2007, and 117 for 2010. Mean firm size is greater in the earlier years, but median size is greater at the end of the sample period than the beginning.[11]

[7] In addition, annual reports for a number of firms are not available for 1993 and 1994 in NZX Deep Archive.

[8] See http://www.business.govt.nz/companies/

[9] For other variables, we were sometimes able to obtain additional information from the company's website.

[10] See http://www.rbnz.govt.nz/statistics/az/2989609.html

[11] The fall in mean and median company size between 2000 and 2007 primarily reflects two phenomena. First, the delisting of large firms like Carter Holt Harvey and Lion Nathan during the period. Second, the introduction of the NZX alternative board (NZAX) in 2003 which provided a greater incentive for smaller

Table 2: Sample Descriptive Statistics

Summary descriptive statistics on sample and firm size. Small firms have total assets equal to less than $50 million (in 2010 dollars); medium firms have total assets between $50 million and $250 million; large firms have total assets greater than $250 million.

Variable	All	Small	Medium	Large
Number of Firms				
1995	84	24	32	28
2000	100	21	38	41
2007	134	58	34	42
2010	117	43	37	37
Mean Firm Size (2010 $million)				
1995	714.84	20.107	119.63	1990.6
2000	842.68	22.073	128.44	1925.0
2007	568.24	19.104	135.87	1676.6
2010	565.72	16.581	141.27	1628.4
Median Firm Size (2010 $million)				
1995	97.138	16.798	94.840	765.19
2000	168.57	16.198	118.23	582.10
2007	95.148	17.122	133.91	694.04
2010	113.49	9.102	126.95	719.30

We also split our sample into three somewhat arbitrary size groups: small (total assets less than $50 million in 2010 dollars), medium (total assets between $50 million and $250 million), and large (total assets greater than $250 million). As can be seen in Table 2, these categories divide the total number of companies up roughly equally in each sample year, although 1995 and 2000 have relatively large proportions of firms in the medium-size group while small firms predominate in the latter years.

3 Principal Analysis and Results

To obtain an overall picture of what has occurred over the 16-year period, we begin by focussing on the differences between the bookend years of 1995 and 2010; a subsequent section examines trends revealed by the intermediate years. We assume our data for 1995 and 2010 provide representative samples of an underlying (hypothetical) population of NZ firms during their respective years, thus allowing us to calculate some simple distributional statistics for each of the variables appearing in Table 1. For the continuous variables, we estimate means and medians and test for 1995–2010 differences using t- and Wilcoxon-tests respectively. For binary variables, we report the percentage of firms having this characteristic and test for 1995–2010 differences using a binomial z-test. In case these

firms to list their securities with NZX and thus be eligible for inclusion in our sample.

simple statistics are a function of firm size, we also regress each board characteristic on a sample-year dummy and total firm assets (in 2010 dollars), using OLS when the variable of interest is continuous and Probit when it is binary. We also use these estimates to shed some light on the similarities and differences between NZ boards and those from other countries; for this purpose we focus on countries which also follow the Anglo-European model of governance, primarily based on agency theory, e.g., Australia, the UK, and the US. Our analysis of these inter-country differences is strictly informal: our data do not allow us to test whether any observed differences are statistically significant, and we make no attempt to explain such differences in terms of firm characteristics — a task well beyond the scope of this paper. We do, however, identify the differences which seem to us most worthy of further investigation.

3.1 Differences between 1995 and 2010

3.1.1 Board composition

Table 3 indicates that average board size fell from about 6.7 directors in 1995 to 5.9 in 2010, and that this decline is significant at the 1% level even after controlling for firm size. At the same time, however, the representation of non-executive and independent directors rose only a few percentage points, comprising approximately 80% and 60% respectively of boards in 2010. Nevertheless, the percentage of boards with a majority of independent directors increased by 16 percentage points (46% to 63%).[12] Female representation on boards also rose substantially: the percentage of boards with at least one female director tripled during the 16-year period covered by our sample, as did the average proportion of female directors per board (albeit to a still rather low 8%, with a median of zero). Director tenure also saw a significant increase, with directors having more than five years service being in the majority by 2010.

All of these trends are broadly in line with the experience of other countries – internationally, boards have attempted to "do more with less" and place more emphasis on board independence. For example, Chhaochharia and Grinstein (2007) report similar proportional changes in the size and independence of US boards between 1997 and 2003, as do Simpson *et al.* (2010) for female representation. In the same vein, the data of Kesner (1988) and Van Ness *et al.* (2010) imply a mean increase in US director tenure of approximately 10% (7.2 years to 7.9 years).[13]

[12]Note, however, that prior to 2004 NZ firms were not required to distinguish between independent and non-independent directors. Consequently, 1995 statistics are based on our own assessment of whether each director met the (subsequently-introduced) NZX definition of director independence, and may therefore be subject to error.

[13]Note, however, that the fall in average NZ board size may also be partly attributable to the greater number of smaller firms choosing to list their equity on NZX's alternative board after 2003 – see the results for a continually-listed sub-sample of firms in section 3.2.

Table 3: Board Composition

Comparison of 1995 and 2010 statistics for board composition. Variable definitions and sample sizes appear in Table 1. Terms in parentheses underneath the variable names indicate the sample sizes for 1995 and 2010 respectively. The t-test evaluates differences in sample means; the W-(Wilcoxon) test evaluates differences in sample medians; the Binomial test is based on a z-statistic and evaluates differences in sample proportions; the Size-adjusted t-test extends the standard t and Binomial tests by controlling for firm size in OLS and Probit regressions respectively. ***(**)(*) denotes statistical significance at the 1% (5%) (10%) level.

	1995	2010			
Variable	Mean or % (Median)	Mean or % (Median)	t-test (W-test)	Binomial test	Size-adjusted t-test
Board Size	6.656	5.872	***		***
(84, 117)	(6.000)	(6.000)	(**)		
Non-Executive Directors	0.790	0.834	*		*
(83, 117)	(0.833)	(0.833)			
Independent Directors	0.556	0.627	*		*
(57, 115)	(0.500)	(0.625)	(**)		
Independent Majority	45.6%	62.6%		**	*
(57, 117)					
Female Director Incidence	11.9%	34.2%		***	***
(84, 117)					
Female Director Representation	0.019	0.080	***		***
(84, 117)	(0.000)	(0.000)	(***)		
Long-Serving Directors	0.339	0.555	***		***
(84, 117)	(0.333)	(0.600)	(***)		

Turning to international differences in levels, evidence from the US (Chhaochharia and Grinstein, 2007; Ning *et al.*, 2010), UK (Guest, 2009), Singapore and Malaysia (Kusnadi, 2011), and Australia (Kang *et al.*, 2007) indicates that board size is noticeably smaller in NZ, but this almost certainly reflects the smaller size of NZ firms.[14] More interestingly, independent director representation in NZ differs from other countries in a somewhat varying fashion. On the one hand, it is a little lower than in the US and Australia: Chhaochharia and Grinstein estimate the mean representation of independent directors on US boards in 2003 to be 71.4% while Kang *et al.* report that 83% of their 2003 sample of Australian firms have an independent director majority. On the other hand, Kusnadi (2011) estimates that only 33% of directors on Singapore and Malaysia boards during the 2000-05 period were independent. Turning to female representation, a similar pattern arises: our 2010 NZ estimates are somewhat lower than Adams and Ferreira (2009) and Simpson *et al.* (2010) find for the US (8.9% for 1995-2003 and 11.9% in 2007 respectively) and Kang *et al.* (2007) report for Australia (10.37% in 2003), but somewhat higher than the Francoeur *et al.* (2007) estimate of 7.02% for Canada in 2001-03.

[14] See, for example, Table 2 in Aggarwal *et al.* (2007).

Table 4: Director Remuneration and Ownership

Comparison of 1995 and 2010 statistics for director remuneration and ownership. Variable definitions and sample sizes appear in Table 1. Terms in parentheses underneath the variable names indicate the sample sizes for 1995 and 2010 respectively. The *t*-test evaluates differences in sample means; the W-(Wilcoxon) test evaluates differences in sample medians; the Size-adjusted *t*-test extends the standard *t*-test by controlling for firm size in an OLS regression. ***(**)(*) denotes statistical significance at the 1% (5%) (10%) level.

	1995	2010		
	Mean	Mean	*t*-test	Size-adjusted
Variable	(Median)	(Median)	(W-test)	*t*-test
Chair Fees	49374	83592	***	***
(30, 115)	(42680)	(67500)	(***)	
Director Fees	25897	48787	***	***
(32, 117)	(23003)	(39750)	(***)	
Director Ownership	0.032	0.023		
(66, 117)	(0.005)	(0.003)		

3.1.2 Director Remuneration and Ownership

Table 4 reveals that per-person fees paid to board chairs and directors increased by more than 60% in real terms between 1995 and 2010. By way of comparison, the corresponding change in the all-sector Labour Cost Index over the same period was 1.5%. Clearly, director remuneration increased at a much faster rate than overall wages and salaries.[15]

During the same period, director share ownership moved in the reverse direction, with median board ownership per director equalling 0.5% of firm shares in 1995 and 0.3% in 2010. Although the difference is statistically insignificant at conventional levels, this change is nevertheless surprising given the NZX Best Practice Code recommendation for share remuneration of directors.

Despite its rapid rise over the 16-year sample period, NZ director remuneration remains fairly low compared to countries such as Australia (e.g., Henry, 2010) and the US (e.g., Adams and Ferreira, 2009; Cordeiro *et al.*, 2000; Linn and Park, 2005), among others, although much of this differential is likely to be due to the smaller average size of NZ firms. Turning to director share ownership, the NZ figures are similar to those obtained for Australia by Honeine and Swan (2010), but almost an order of magnitude higher than the approximate 0.05% ownership stake reported by Chhaochharia and Grinstein (2007) and Bhagat and Bolton (2010) for the the typical US director. Such a difference is unsurprising given the much greater size and value of US firms.

[15] Nevertheless, chair and director fees have apparently grown more slowly than the remuneration of NZ chief executive officers (CEO). Boyle and Roberts (2012, Table 1) report that the average annual increase in nominal CEO remuneration between 1997 and 2005 was 11.34%, which corresponds to a real rise of around 10% per annum. By contrast, from Table 4 the annual increase in real director fees was only 4.3% per annum over our, slightly longer, sample period.

Table 5: Director Activity

Comparison of 1995 and 2010 statistics for director remuneration and ownership. Variable definitions and sample sizes appear in Table 1. Terms in parentheses underneath the variable names indicate the sample sizes for 1995 and 2010 respectively. The *t*-test evaluates differences in sample means; the W-(Wilcoxon) test evaluates differences in sample medians; the Size-adjusted *t*-test extends the standard *t*-test by controlling for firm size in an OLS regression. ***(**)(*) denotes statistical significance at the 1% (5%) (10%) level.

	1995	2010		
	Mean	Mean	*t*-test	Size-adjusted
Variable	(Median)	(Median)	(W-test)	*t*-test
Board Meetings	11.03	10.87		
(31, 80)	(11.00)	(10.00)	(*)	
Total Meetings	13.68	15.05		
(31, 80)	(14.00)	(13.50)		
Total Directorships	8.822	7.644		
(84, 117)	(6.393)	(6.250)		
Listed Directorships	0.333	0.622	***	***
(84, 117)	(0.200)	(0.316)	(***)	

3.1.3 Director Activity

Apart from some weak evidence for a small decline in board meeting frequency, Table 5 reveals that internal board activity remained largely unchanged over the sample period: board meetings take place approximately 11 times a year, supplemented by an additional 2-3 committee meetings. The number of board meetings is high compared to the 7-8 annual meetings reported by Al-Najjar (2012) and Brick and Chidambaran (2010) for UK and US firms respectively.

Also unchanged over the sample period is the number of additional company directorships per director. By contrast, the average number of additional NZX-listed directorships almost doubled over the same period. This implies an increasing concentration of directors on the boards of listed NZ firms, consistent with our earlier observation on long-serving directors, and may reflect difficulties in the recruitment of new directors due to their increased liabilities under the 1993 Companies Act. Nevertheless, NZ directors do not appear to be particularly 'busy' – the approximately 1.6 listed directorships held by the average NZ director in 2010 is similar to the number held by their overseas counterparts: Chhaochharia and Grinstein (2007) and Ferris *et al.* (2003) find that the typical US director holds fewer than two listed-firm directorships and Kiel and Nicholson (2006) report a similar workload for Australian directors.

3.1.4 Board Committees

Table 6 shows the increased prominence of board committees in NZ firms. Given the NZX requirement (introduced in 2003) that firms listing on the main board must have

Table 6: Board Committees

Comparison of 1995 and 2010 statistics for board committee characteristics. Variable definitions and sample sizes appear in Table 1. Terms in parentheses underneath the variable names indicate the sample sizes for 1995 and 2010 respectively. The t-test evaluates differences in sample means; the W-(Wilcoxon) test evaluates differences in sample medians; the Binomial test is based on a z-statistic and evaluates differences in sample proportions; the Size-adjusted t-test extends the standard t and Binomial tests by controlling for firm size in OLS and Probit regressions respectively. ***(**)(*) denotes statistical significance at the 1% (5%) (10%) level.

	1995	2010			
Variable	Mean or % (Median)	Mean or % (Median)	t-test (W-test)	Binomial test	Size-adjusted t-test
Audit Committee $(84, 117)$	58.3%	95.7%		***	***
Remuneration Committee $(84, 116)$	33.3%	79.3%		***	***
Audit Committee Independence $(49, 109)$	0.674 (0.667)	0.809 (0.750)	*** (***)		***
Remuneration Committee Independence $(28, 88)$	0.721 (0.667)	0.764 (0.750)			

a separate audit committee, it is unsurprising that the percentage of firms with such a committee rose from 58.3 in 1995 to 95.7 in 2010. Audit committees have also become increasingly dominated by independent directors, their representation rising from 67.4% on average in 1995 to 80.9% in 2010. In this context, interestingly, the NZX listing rules specify only that the audit committee contain a simple majority of independent directors, so NZ firms appear to have voluntarily adopted structures over and above requirements.[16] Similarly, even without the impetus of a listing rule, the percentage of firms employing a separate remuneration committee more than doubled – from 33.3 to 79.3 – during the sample period, although independent director representation on these committees rose only slightly in the average firm.

These figures fall somewhat below those in the usual comparator countries. For example, Henry (2010) finds that, as of 2002, 99% of Australian listed firms had a separate audit committee and 88% a separate remuneration committee. For the US, Chhaochharia and Grinstein (2007) report that 100% of listed firms had a separate audit committee in 2003, with 99% also having a separate remuneration committee. Neither study provides details on independent director representation on these committees, but Chhaochharia and Grinstein note that 76.8% of US firms had audit committees comprised entirely of

[16] Bradbury *et al.* (2006) report evidence suggesting that audit committees are effective only when all members are independent directors.

Table 7: CEO Board and Committee Involvement

Comparison of 1995 and 2010 statistics for CEO involvement on the board of directors. Variable definitions and sample sizes appear in Table 1. The Binomial test is based on a z-statistic and evaluates differences in sample proportions; the Size-adjusted t-test extends the Binomial test by controlling for firm size in a Probit regression. Terms in parentheses underneath the variable names indicate the sample sizes for 1995 and 2010 respectively.

Variable	1995 %	2010 %	Binomial test	Size-adjusted t-test
CEO-Chair (84, 117)	1.2%	0.0%		
CEO on Board (84, 117)	67.9%	66.7%		
CEO on Audit Committee (48, 108)	10.4%	7.4%		
CEO on Remuneration Committee (28, 89)	3.5%	10.1%		
CEO on Effective Remuneration Committee (84, 117)	41.6%	20.5%	***	***

independent directors in 2003. So even if none of the remaining boards had an independent majority the overall independent director representation would still be in the vicinity of 85-90% – considerably higher than the corresponding NZ figure of 79%.

3.1.5 CEO Board and Committee Involvement

In their discussion of international governance trends, LeBlanc and Gillies (2005, p.92) claim that:

> It is almost unheard of for the chief executive officer of the corporation not to be a member of the board of directors. Indeed, in many companies, particularly in the United States, it is not unusual for the role of the board and CEO to be combined.

Neither part of this statement holds in NZ. As Table 7 shows, virtually no NZ CEO also held the position of board chair in either 1995 or 2010. By contrast, Bhagat and Bolton (2010), Brick and Chidambaran (2010), and Chhaochharia and Grinstein (2007) all report 60-70% of US firms as having combined CEO-Chair roles in the 2000s, while Henry (2010) finds a corresponding range of 21-25% in Australia during the same period.[17] Similarly, far from being "almost unheard of", approximately 1/3 of NZ CEOs do not sit on their company's board.

At the other end of the spectrum, CEO membership of the remuneration committee is relatively common in NZ firms, with 10.1% having this characteristic in 2010. Moreover,

[17] Kusnadi (2011) reports that 18% of CEOs in Singapore and Malaysia also serve as board chairmen.

after taking into account CEOs who sit on the boards of firms that do not have a remuneration committee, and who are thus effectively members of those firms' remuneration committees, this figure rises to over 20%. By contrast, Vafeas (2003) reports that only two of the 271 largest firms in the Forbes compensation survey for 1997 fall into this category. Similarly, Anderson and Bizjak (2003, p.1325) note that by 1998 insiders "are essentially absent" from a random sample of 110 New York Stock Exchange firms.

3.2 Sub-Sample of Continually-Listed Firms

An obvious question to ask about the above results is whether they primarily reflect changes in standard governance practice by the typical NZ firm (as we have implicitly assumed) or changes in sample composition as companies list and de-list.[18] To address this issue, we repeat the above analysis for the sub-sample of 24 firms that remained listed throughout the sample period.

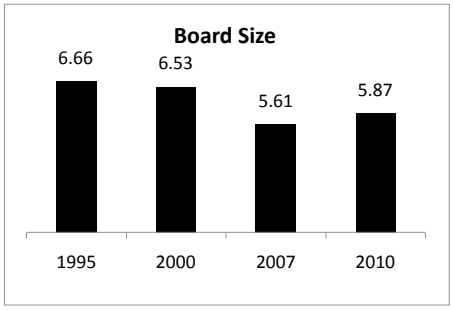
Because the results from doing so are very similar to those appearing in Tables 3 – 7, we do not report them in any detail, but simply summarize their principal features. For the continually-listed sub-sample, similar or slightly bigger changes (in absolute value terms) occurred in the representation of non-executive, independent, female and long-serving directors, in chair and director fees, in the number of board meetings and additional listed-firm directorships, in the adoption of separate audit and remuneration committees, and in the propensity of the CEO to take on chair, board and remuneration committee roles. Slightly smaller changes arose in board size and audit committee independence. Only in CEO membership of the audit committee was there any noticeable difference between the full and continually-listed samples: whereas in the full sample 10.4% of CEOs had this function in 1995, falling to 7.4% in 2010, the corresponding numbers in the continually-listed sample are 16.7% and 20.8%. Long-surviving firms thus appear to have been considerably more likely to appoint their CEO to the audit committee, a tendency that slightly increased over the sample period. Nevertheless, the general impression obtained from this exercise is that the results in section 3.1 do indeed reflect fundamental changes in across-the-board governance choices rather than changes in sample composition.

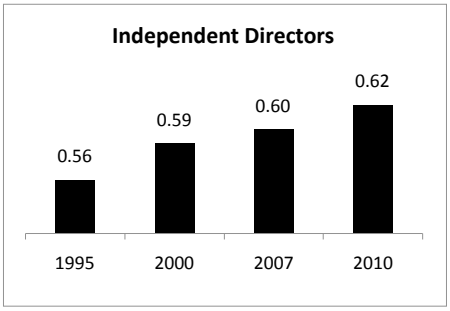
3.3 1995–2010 Trends in Board Characteristics

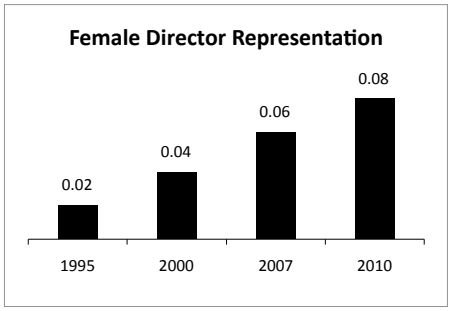
We now investigate the extent to which the observed differences (or non-differences, as the case may be) between 1995 and 2010 reflect consistent trends throughout the sample period. In order not to overload the reader, we focus on ten fundamental characteristics that we view as being the most important and/or interesting.

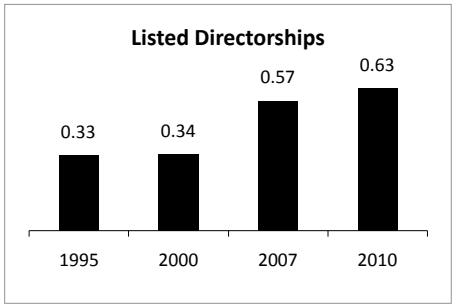
Figure 1 displays the results of this exercise. The level of chair and director fees,

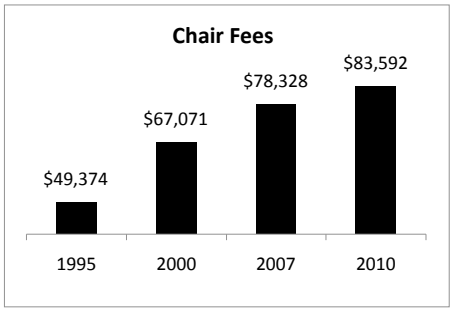
[18] One reason why this might be important is the increased listing of smaller firms after 2003.

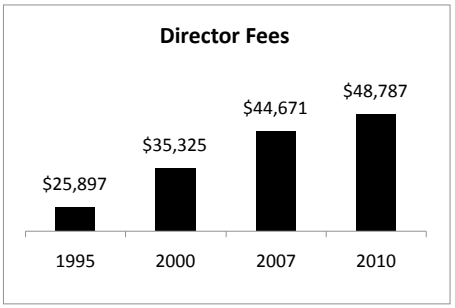


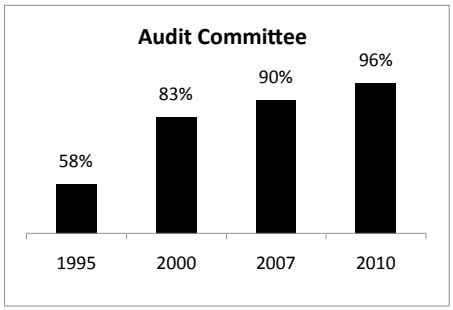


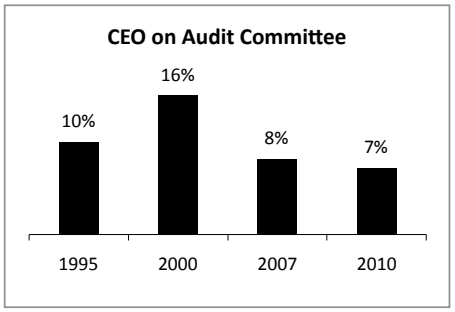


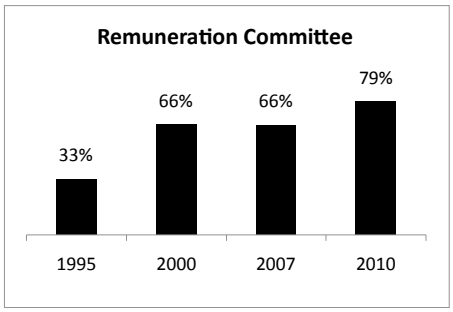












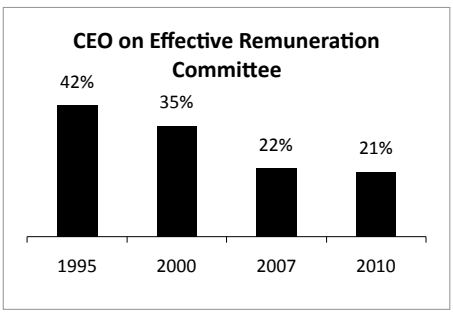


Figure 1: 1995–2010 Trends in Board Composition, Activity, and Incentives: All Firms Combined.

the representation of independent and female directors, the holding of additional listed-firm directorships, and the existence of audit and remuneration committees all increased monotonically over the period. Somewhat surprisingly however, very little of the increases in committee existence and independent director representation occurred between 2000 and 2007, despite this being the period spanning the introduction of NZX rules and recommendations regarding these characteristics. In the cases of the audit and remuneration committees, for example, by far the greatest rate of formation occurred prior to 2000, suggesting that the NZX initiatives were simply formalizing phenomena that were already occurring naturally. By contrast, the *biggest* increases in chair and director fees took place during the 2000–2007 period. Although this timing is probably coincidental, it is, nevertheless, a somewhat unexpected response to a greater official focus on governance matters.

Somewhat better news for the effectiveness of the NZX governance reforms is suggested by a considerably reduced presence of CEOs on the audit and (effective) remuneration committees. Only half as many CEOs were directly engaged in remuneration decisions at the end of the sample period as at the beginning, with most of this fall occurring between 2000 and 2007. And while the overall drop in CEO presence on the audit committee was nowhere near as great, almost all of it occurred between 2000 and 2007.

Board size also trended downwards during the 1995-2007 period, before rebounding somewhat in 2010. Whether this represents the beginning of a return to the past or is simply a statistical blip remains to be seen. This minor exception aside, Figure 1 suggests that section 3.1's formal comparison of beginning- and end-date values robustly captures trends that were in operation over the entire period covered by our analysis.

4 Other Issues

4.1 Board Trends and Firm Size

The results presented thus far ignore possible firm size-based variation in board characteristics. To address this issue, we first place each firm-year in our sample in one of the three size categories described in section 2.2 and then re-estimate means (or percentages) in each of these categories for the set of board characteristics appearing in Figure 1.

Figure 2 summarizes the results. Most board characteristics follow similar paths regardless of firm size. In all three size categories; (i) female and independent director representation rose, (ii) the existence of audit and remuneration committees became more common, and (iii) the presence of CEOs on the latter became less common. Moreover, board size drifted gently downwards in two of the the three size categories, while remaining essentially stationary in the third.

Despite this apparent homogeneity, there are also some interesting differences. First,

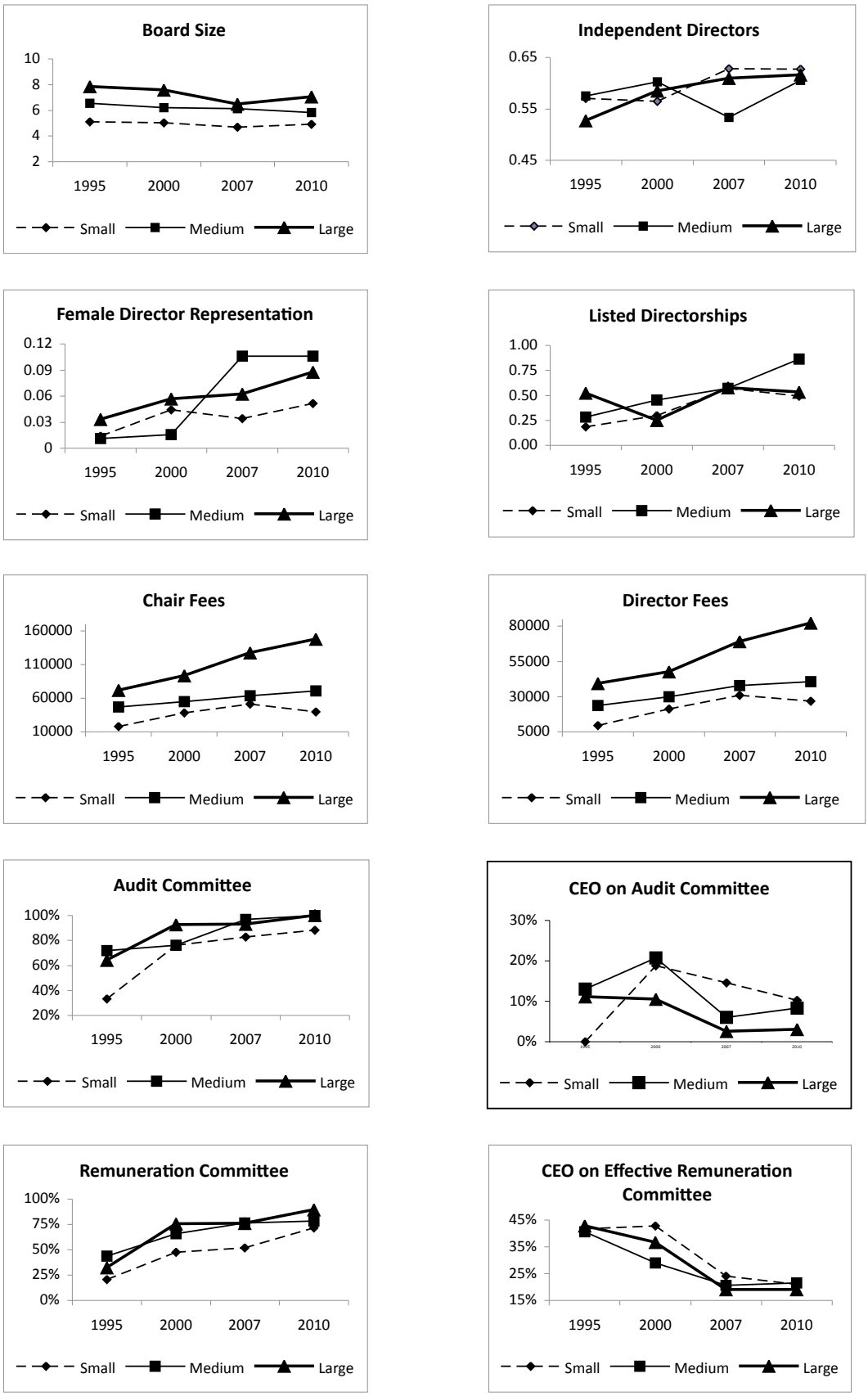


Figure 2: 1995–2010 Trends in Board Composition, Activity, and Incentives: Firm Size Groups. Small firms have total assets equal to less than $50 million (in 2010 dollars); medium-size firms have total assets between $50 million and $250 million; large firms have total assets greater than $250 million.

the graphs for chair and director fees are revealing in that not only are fees considerably higher in large firms, but they also increased at a much faster rate than those of the other two size groups (particularly compared to the smallest firms). Clearly, the rewards for accepting large firm directorships rose significantly in both absolute and relative terms. Second, the medium-size group sometimes stands out from the other two. For example, while this group had the lowest rate of female director representation in 1995, it had easily the highest by 2010. A similar pattern applies to the holding of listed directorships. Going in precisely the reverse direction, the medium-size group also had the highest proportion of independent directors in 1995 but this barely changed over the sample period resulting in it having the lowest proportion by 2010.

4.2 Cross-listing effects

In section 3.1 above, we noted some differences between NZ board characteristics and those from other (mainly much larger) countries. This raises an important question: do such differences primarily reflect something unique about NZ firms, or about the NZ governance environment? To provide some preliminary evidence on this issue, we compare the board characteristics of NZ firms listed only on the NZX with those of firms that also list on the (much larger) Australian Stock Exchange (ASX). The governance choices of such firms will be influenced by the Australian governance environment, so by comparing these choices with those of their NZX-only counterparts we can gauge the extent to which NZ board characteristics reflect the NZ governance environment. Because the ASX-listed group are typically amongst the largest NZ firms, we eschew comparison of board variables that have an obvious connection with firm size (e.g., board size, chair and director fees) in order to focus as closely as possible on 'pure' cross-listing effects.[19]

Table 8 shows that differences between the two groups of firms exist primarily at the committee level. Although dual-listed firms have more independent directors, fewer busy and long-serving directors, a slightly smaller number of board meetings, and are more likely to have at least one female director and a CEO who sits on the board, these differences are mainly small and statistically insignificant. By contrast, the greater propensities of dual-listed firms to have (i) a formal remuneration committee and (ii) greater independent director representation on the audit and remuneration committees are more economically and statistically important. Overall, however, the board choices of NZ firms do not seem to be greatly altered by listing in another jurisdiction.

[19] We also do not consider variables where there is very little full-sample variation, e.g., CEO-Chair.

Table 8: Cross-Country Differences in Board Characteristics: NZX-listed versus NZX/ASX-listed firms

Comparison of 2010 board characteristics between NZ firms listed solely on the NZX and those jointly listed on the Australian Stock Exchange (ASX). Variable definitions appear in Table 1. Terms in parentheses next to the variable names indicate the sample sizes for NZX-listed and joint-listed firms respectively. The *t*-test evaluates differences in sample means; the Binomial test is based on a *z*-statistic and evaluates differences in sample proportions. ***(**)(*) denotes statistical significance at the 1% (5%) (10%) level.

	NZX only	NZX and ASX		
Variable	Mean or %	Mean or %	*t*-test	Binomial test
Non-Executive Directors (101, 16)	0.830	0.858		
Independent Directors (99, 16)	0.615	0.704		
Independent Majority (99, 16)	60.6%	75.0%		
Female Director Incidence (101, 16)	31.7%	50.0%		
Female Director Representation (101, 16)	0.081	0.067		
Long-Serving Directors (101, 16)	0.562	0.512		
Board Meetings (67, 13)	10.99	10.31		
Listed Directorships (101, 16)	0.657	0.403	*	
Remuneration Committee (100, 16)	77.0%	93.8%		**
Audit Committee Independence (93, 16)	0.788	0.894	**	
Remuneration Committee Independence (73, 15)	0.719	0.883	***	
CEO on Board (101, 16)	64.4%	81.3%		
CEO on Audit Committee (92, 16)	8.70%	0.00%		***
CEO on Effective Remuneration Committee (101, 16)	22.8%	6.3%		**

Table 9: Convergence of Board Characteristics

Comparison of 1995 and 2010 standard deviations for various board characteristics. Variable definitions and sample sizes appear in Table 1. Differences are evaluated using an F-test. ***(**)(*) denotes statistical significance at the 1% (5%) (10%) level.

	1995	2010	
Variable	Standard deviation	Standard deviation	F-test
Board Size	1.978	1.643	*
Non-executive Directors	0.208	0.155	***
Independent Directors	0.191	0.213	
Audit Committee Independence	0.271	0.203	**
Remuneration Committee Independence	0.266	0.299	
log of Chair Fees	0.672	0.723	
log of Director Fees	0.709	0.726	
Director Ownership	0.052	0.043	*
Long Serving Directors	0.303	0.306	

4.3 Convergence of Board Characteristics

The adoption of very similar corporate governance codes by so many countries around the world in the last 20 years suggests the development of an international consensus on best-practice governance, and consequently on optimal board characteristics. To the extent this is true, we would expect to see evidence of convergence in board characteristics. For example, the increasing importance placed on director independence implies that fewer boards and board committees will contain a minority of independent directors, thus reducing the dispersion in the extent to which independent directors are represented.

To examine this issue in the NZ context, we estimate standard deviations (as a proxy for dispersion) for most of the continuous variables in our sample and test for differences between 1995 and 2010.[20] The results of this exercise appear in Table 9. Dispersion in the number of directors per board, the board representation of non-executive directors, and the extent of audit committee independence fell significantly between 1995 and 2010, consistent with firms moving towards an agreed 'best-practice' model of governance. In other areas, however, there is little or no sign of convergence: director share ownership and independent director representation on both the remuneration committee and the full board actually saw a slight rise in dispersion during the period. Nor, after adjusting for their significant increases in mean, was there any reduction in chair and director fee dispersion.[21]

5 Summary and Concluding Remarks

Our principal findings in this paper are as follows:

I. Between 1995 and 2010, the average board size of NZ firms fell slightly, while the board representation of non-executive, independent, long-serving and female directors all rose, as did the propensity of firms to establish separate audit and remuneration committees. Real chair and director fees rose sharply, especially in large firms. The typical director also took on more listed directorships.

II. The 2003 NZX corporate governance reforms appear to have had relatively little impact on the governance choices of NZ firms: most of the substantial changes in board characteristic statistics had occurred by 2000, there is only weak evidence for convergence in board characteristics over the sample period, and director share

[20] As well as eliminating the binary variables from this exercise (since standard deviations would shed little light on convergence for such variables), we also exclude variables that were close to zero in 1995, e.g., female representation.

[21] The adjustment consists of taking the natural log of the two fees variables before estimating their standard deviations, which is approximately equivalent to estimating the coefficient of variation of the unlogged variables.

ownership declined. One exception is CEO involvement in audit and remuneration committee decisions, the frequency of which does seem to have fallen in recent years.

III. NZ board characteristics sometimes differ quite markedly from those prevailing abroad, particularly in the adoption of separate audit and remuneration committees, in the formal involvement of CEOs with these committees and with the board itself, in the frequency of board meetings, and in the representation of independent directors.

In turn, these findings suggest a number of unanswered questions about NZ boards:

(i) Why do so many NZ CEOs – approximately 1/3 in 2010 – not sit on their firm's board? And does this have consequences for intra-firm communication, strategy and performance?

(ii) Why do so few NZ CEOs serve as board chair? Is this an appropriate local response to a potential agency problem?

(iii) Relative to the typical situation overseas, a significant proportion of NZ CEOs effectively sit on their firm's remuneration committee. Is this, as would appear at first glance, a major conflict of interest, or is it an optimal response to local conditions?

(iv) Why is the representation of independent directors on NZ boards (and associated committees) still somewhat lower than in other countries? Is there evidence that this hinders firm performance?

(v) Why do NZ boards tend to hold more meetings than their overseas counterparts? Is this an indicator of greater diligence or greater inefficiency?

(vi) Although the holding of listed directorships appears to conform with international norms, many NZ directors also tend to hold a significant number of unlisted directorships. Does this dilute their effectiveness on the boards of listed firms?

(vii) How and why have NZ chair and director fees risen so markedly over the 15-year period of our study? Does this primarily reflect rent expropriation by boards, or increasing international competition for director talent, or compensation for increased risks and responsibilities?

We hope that at least some of these questions thrown up by our data will motivate further research on NZ corporate boards.

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